nu-gro

The Nu-Gro Corporation 2002 Annual Report

MEASURING SUCCESS

HOW DO WE MEASURE

S U C C E S S ? Naturally, we look at our "bottom line". There is no arguing the importance of being profitable. However, like many of today's forward-thinking enterprises, we also look at a variety of intangibles when measuring our success – such as quality of management, customer retention, research and development, and innovation.

Savvy investment analysts know that financial performance simply tells them what a company has already done. Non-financial performance, on the other hand, tells them what a company is likely to do.

NU-GRO CORPORATE HISTORY

1988
Nu-Gro
Initial Public Offering. Purchased Hillview Farms.

1989
Putnam
Formed a Joint venture with Cold Springs Agri Services. Built Putnam plant.

1990
Cold Springs Agri Services
Bought out Cold Springs Agri Services.

1991
C-I-L®
Bought C-I-L Canadian Lawn & Garden business. Created national distribution.

1995
Omnicology
Vertical integration into fertilizer raw material with purchase of Omnicology, Gloversville, NY.

July 1996
Nitroform® Nutralene®
Acquired Nitroform, Nutralene brand names (products used in turf and speciality agricultural markets).

Oct. 1996
S.C.U.®
Sulphur Coated Urea facility acquired from Terra International, Inc., Courtright, ON.

March 1998
Wilson®
Increased ownership from 20% to 100% in Wilson Laboratories.

Aug. 1998
IB Nitrogen®
Acquired assets to operate IB Nitrogen.

July 1999
New Corporate Head Office
Consolidated head office and two sales offices and warehouses to new location in Brantford, ON.

July 1999
Mor-Pac Limited
Purchased 50% interest in Mor-Pac Limited, Brighton, Ontario. Transferred production of liquid pest control products to Mor-Pac.

Jan. 2000
Merit®
Nu-Gro appointed exclusive Canadian supplier of Merit by Bayer.

May 2000
ProTurf®
Acquisition of the Canadian professional turf business of the Scotts Company.

Oct. 2000
Nu-Gro
New manufacturing, warehouse and distribution facility opened in Crossfield, Alberta.

Nov. 2000
Vigoro®
Acquisition of the business of Pursell Vigoro Canada. Includes the brands Vigoro, So-Green®, Par-Ex® and IBDU®.

July 2001
EroGreen Seeds
Acquisition of 70% of EroGreen Seeds Inc.

Sept. 2001
Nutralene®
Nu-Gro completed the construction of a new state-of-the-art Methylene Urea Plant to meet increased product demand for Nutralene.

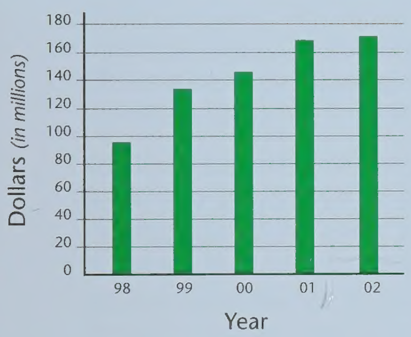
July 2002
Pickseed®
Supply agreement with Pickseed Canada Inc. to maximize sales of grass seed. Includes licence to use the Pickseed and Oseco® brands.

July 2002
EroGreen Seeds®– Mor-Pac
Increased ownership to 100%.

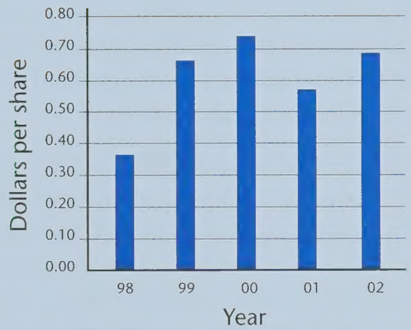
Oct. 2002
Plant-Prod®
Acquired assets associated with the Consumer Products Division.

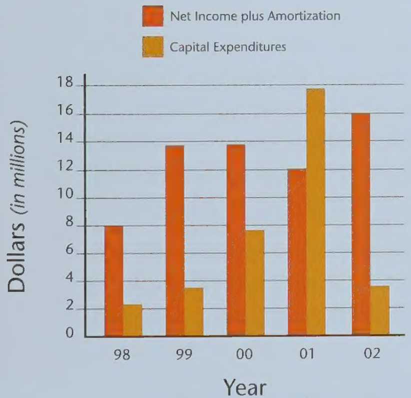
HIGHLIGHTS 2002

SALES

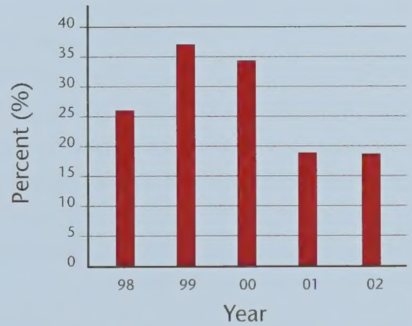


EARNINGS PER SHARE

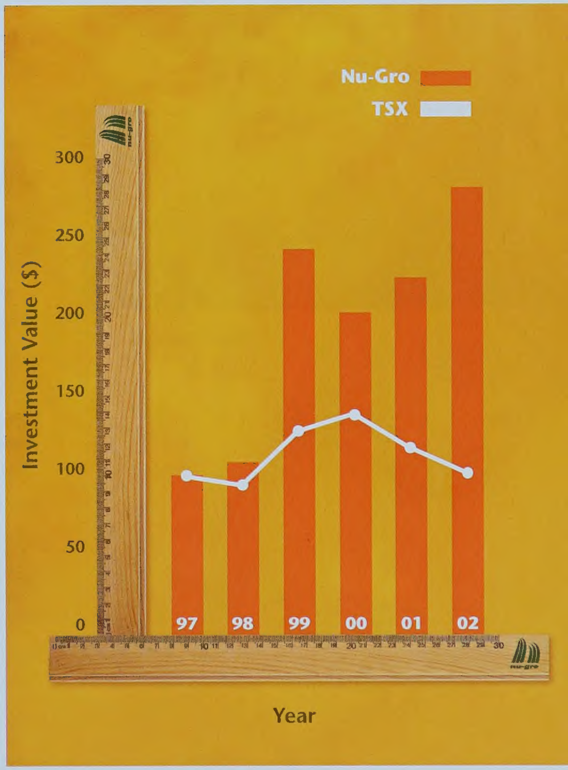




CASH FLOW

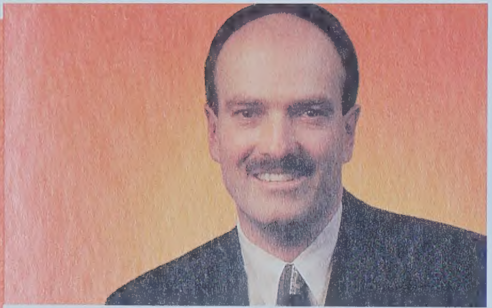


RETURN ON CAPITAL
(ONE YEAR)



COMPARISONS OF THE
FIVE YEAR CUMULATIVE TOTAL
(SHAREHOLDER RETURN ON COMMON SHARES
OF NU-GRO AND THE TSX)

REPORT TO SHAREHOLDERS



John D. Hill, President & C.E.O.

We are pleased to report that your company enjoyed record results in terms of sales, net earnings and cash flow for the fiscal year ended September 30, 2002. On slightly higher revenues, earnings per share were $0.71 ($0.69 diluted) versus $0.58 ($0.57 diluted) in 2001 on fewer shares outstanding. Cash flow (net income plus amortization) was $16.1 million versus $12.2 million in the prior year. Complete details of, and commentary on, our operating performance are contained in the audited financial statements and in the Management's Discussion and Analysis section of this Annual Report.

During the past year we implemented cost reduction initiatives such as better inventory controls and focused on our ongoing SKU (stock keeping unit) reduction program in order to improve our customer service and financial performance. In addition, we reorganized our Eastern Canadian consumer sales structure to be more efficient in the way we go to market. These efforts, and margins returning to more normal levels in our raw material business, contributed in large part to the 35% improvement in net earnings.

Our balance sheet has never been stronger. Shareholders equity increased from $56 million to almost $81 million this year and funded debt declined from $39.4 million to $19.6 million this year. On February 21, 2002, Nu-Gro completed an equity issue of two million units at a price of $7.00 per unit, which generated net proceeds of $13 million. Details on the equity issue are outlined in the Annual Report. That equity issue proved to be timely in light of the subsequent drying up of the market for new issues. Improved profitability and working capital balances generated $24 million of cash from operations. The additional equity and cash from operations gives us the flexibility and resources to participate in the rapid consolidation in the North American lawn and garden industry – consumer, professional and specialty raw materials – through selective acquisitions or alliances.

In fiscal 2002, we took two more steps toward increasing the critical mass of our Canadian consumer products business. On July 3, Nu-Gro signed an agreement with Pickseed Canada Inc. to combine our respective expertise to maximize the sales of grass seed in the Canadian

consumer market. The transaction included a long-term supply agreement as well as a license to use the Pickseed® and Oseco® brands. Prior to finalizing this agreement, Nu-Gro increased its ownership in EroGreen Seeds Inc. from 70% to 100%. At year-end Nu-Gro also completed the acquisition of the Plant Products consumer division. The transaction included the Smartcote® trademark, a license to use the Plant-Prod® trademark in the Canadian consumer market and a long-term supply agreement under which Plant Products will supply water soluble and controlled release fertilizers for these product lines. We are delighted to have the Pickseed® and Oseco® grass seed brands as well as the Plant-Prod® fertilizers because of their excellent reputation with the home gardener and the benefits our customers will receive from efficiencies in terms of sales contact, product ordering, customer service, training, supply chain management and in-store merchandising.

Austin C. Beutel, Chairman

Environmental concerns and the use or misuse of pesticides and fertilizers by consumers remain in the spotlight. These issues are being addressed by our company and our industry through efforts at better education of the public on proper product usage, and the dissemination of scientific data to dispel some of the unfounded scare mongering. Less than 5% of the pesticides/insecticides used in North America are delivered in lawn and garden products, yet the focus has been on our industry. Nu-Gro supports the development and introduction of reduced risk products and new active ingredients. Consumers want attractive urban and residential landscaping and such product innovation will surely benefit our company over time.

Despite all the turmoil in the stock markets, our shares closed at $7.25 on September 30, 2002, up from $6.00 one year earlier. We believe this gain can be attributed to our performance this year, to our strong financial condition, and to our leading position in an industry with attractive prospects for the future.

Our most important ingredient for success and creativity are our more than 350 dedicated employees. We applaud them and our Board of Directors for their efforts, thank them for their service and know we can count on them to meet new challenges and opportunities.

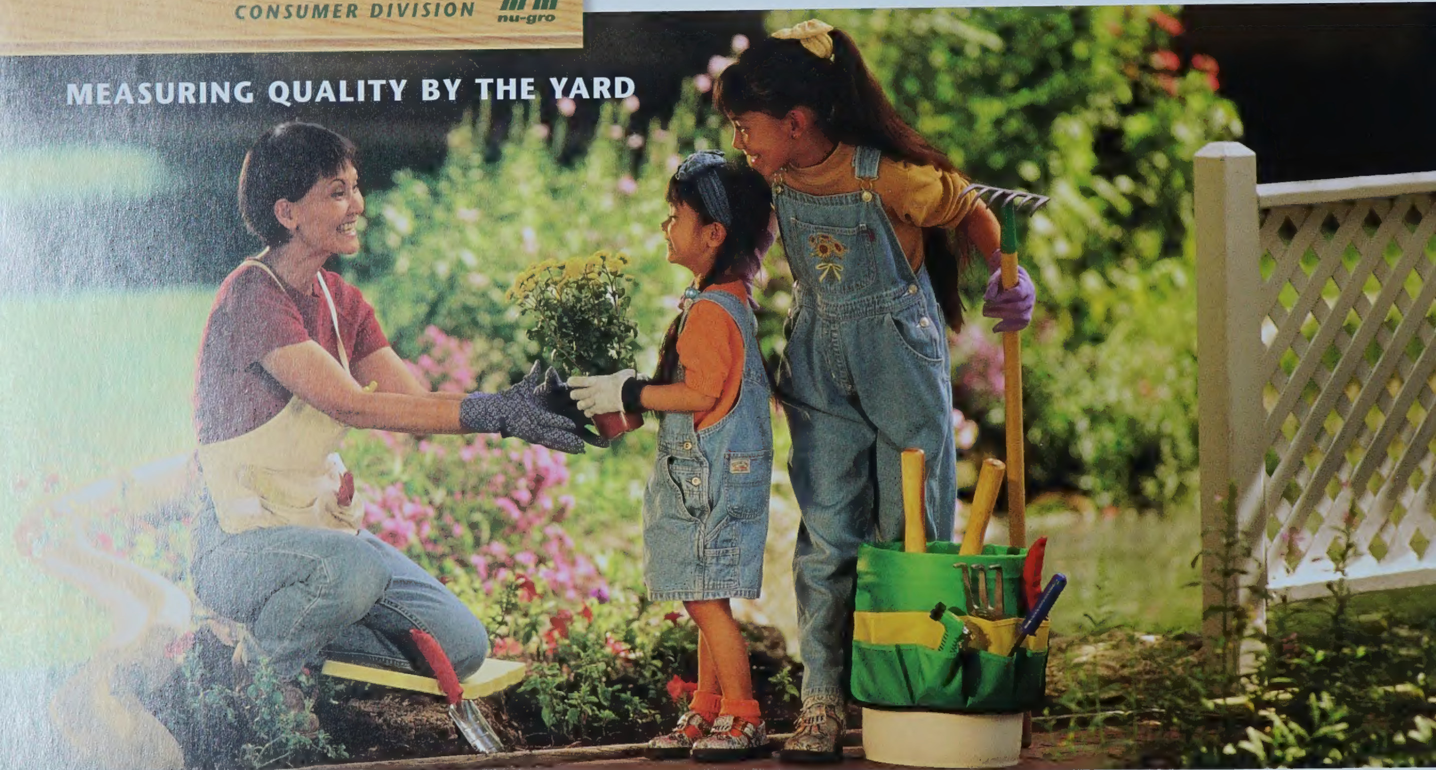
John D. Hill, President & C.E.O.

Austin C. Beutel, Chairman

Our Consumer Products continue to win the hearts and minds of homeowners and gardening enthusiasts from coast to coast. With over 700 products available to them, consumers know they can count on Nu-Gro brands for superior solutions to a vast array of needs. And what better testament to the quality and value of our products than the sight of families and neighbours enjoying the rewards of their efforts – beautiful, healthy lawns and gardens.

CONSUMER DIVISION

MEASURING QUALITY BY THE YARD



Nu-Gro consumer brands are sold through all the major "box", chain, mass merchandisers and leading lawn and garden centres across Canada.

Nu-Gro lawn fertilizer, grass seed, garden and ornamental fertilizers, soil and composted horticultural products, household and yard pest control products, water soluable plant food, pet care and ice melter products are marketed under the following leading brands: Alaskan®, C-I-L®, Green Earth®, Hillview®, Oseco®, Pickseed®, Plant-Prod®, So-Green®, Wilson® and Vigoro®.

The fastest growing leisure activity in Canada now sees more than 80% of Canadians gardening in some way. This trend is expected to continue over the next ten years due to North America's aging population. The sales potential for Nu-Gro consumer brands is certainly positive.

Nu-Gro Consumer Products currently enjoy a market-leading position in a number of product categories. In actual fact, we give Canadian consumers a choice of more leading brands than any of our competitors. The calculated breadth of our offering means a Nu-Gro brand presence on virtually every shelf in the lawn and garden products section, at virtually every price-point. It is a winning strategy that has had an enormous impact on the success of our company.

Our stable of quality lawn and garden products has been significantly bolstered this past year, by the addition of the Oseco®, Pickseed® and Plant-Prod® brands.

Continuing efforts to improve profit margins and reduce inventory costs for our retail customers by streamlining distribution channels and consolidating delivery logistics have helped to further our reputation as the leader in just-in-time, value-added service.

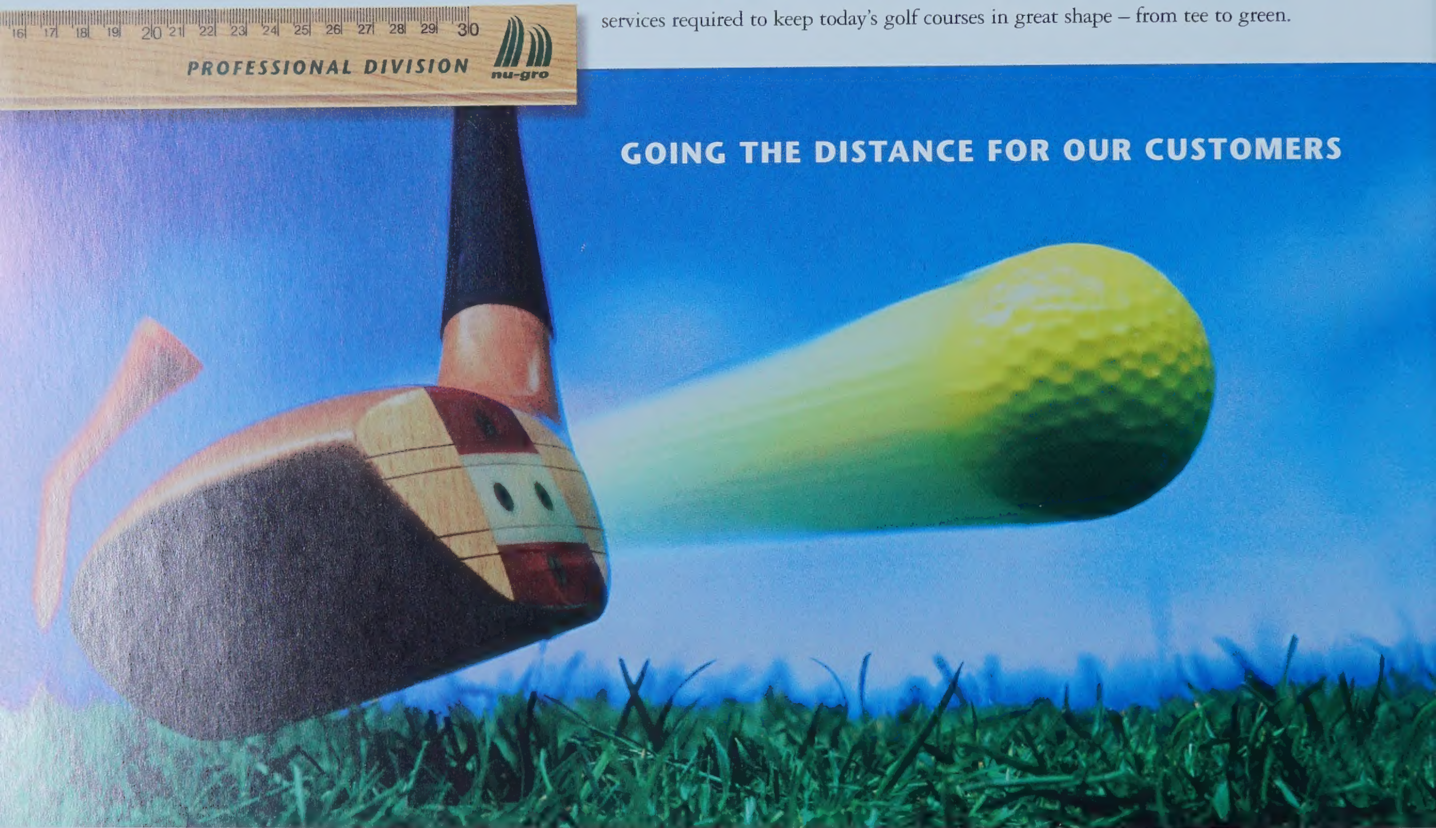
In addition, we remain committed to investing in the development of lower-risk/higher-efficacy products, as well as continuing to emphasize the importance of educating and training customer personnel and consumers on the proper selection and use of our products.

Exclusive to Canadian Tire for 2003, C-I-L® 77™ (77% of the total nitrogen is from slow-release S.C.U.®) has all the ingredients necessary to be the new standard in premium lawn fertilizers.

In 2003, Green Earth will introduce Premium Compost – a 100% natural organic product, specifically designed to improve soil quality.

With the golf course business representing a significant portion of our professional product sales, it is imperative that we maintain our leadership position in this valued market segment. Our Professional Products division works closely with golf course superintendents to develop and provide the specialized solutions and customized services required to keep today's golf courses in great shape – from tee to green.

GOING THE DISTANCE FOR OUR CUSTOMERS



Nu-Gro is the exclusive supplier of premium turf fertilizers to ClubLink Canada, Canada's largest golf course operator. And with golf course construction continuing to blaze its way across the country in an effort to keep pace with the rapid growth of Canada's second most popular leisure activity, the prospects for continued growth are excellent. Nu-Gro is also the exclusive fertilizer supplier to the NGCOA (900+ members in Canada).

Nu-Gro Professional division is recognized as an innovator and a leader in the provision of superior products and outstanding customer service.

More golf courses in Canada use fertilizers produced by Nu-Gro than any other manufacturer. Our leading brands are ProTurf®, Par-Ex® and Nu-Gro. Collectively, these three well-known and respected brands present our golf course customers the most comprehensive selection of specialized – and customizable – solutions in the industry.

In the area of plant protection technology, Merit® and Eagle® brands have all received strong support from customers. Also, we continue to work with the University of Guelph and others to develop new leading edge plant protection technology.

Our division is looking ahead to 2003 with considerable excitement. For starters, we will be introducing Nu-Spec™ specialty greens fertilizers in both Canada and the United Kingdom. The Nu-Spec brand combines core controlled-release nitrogen technology in a homogenous granulated form that will strengthen our dominant position in the greens and tees markets.

The ice melter market will see us launch the Mercury™ brand ice control products. This new brand announces our entry into the U.S. $50 million North American calcium chloride market.

In February of 2003, we will inaugurate a fully-interactive Internet database to manage technical information for turfgrass managers. Called the Nutrient Management Planner™, this proprietary software will help determine comprehensive fertility programs that will meet or exceed government regulations regarding nutrient and pesticide management.

Nu-Gro Professional will continue to be an innovator and a leader in the various markets we serve. In 2003, we intend to realize significant expansion of our product offering and channels of distribution in both North America and the U.K.

Nu-Gro supplies the Professional Lawn Care Market with professional lawn fertilizers.

In the Canadian and U.S. ice melter industry, our Alaskan brand has been gaining market share every year, and we will be entering the calcium chloride market in 2003 with the launch of Mercury ice control products.

Nu-Gro Professional markets turf, pest control and ice melter products that help protect the health of golf courses, stadiums, parks, highways, restaurants, and many other public and commercial properties.

Our Raw Materials division offers premium-grade specialty nitrogen products for professional use in a wide variety of markets. The division is firmly committed to consistently demonstrating that environmental responsibility and superior product value can go hand-in-hand. Proudly, all products are "Efficiency Designed" to ensure maximum delivery of nitrogen to intended plants, with little or no loss through leaching.

Nu-Gro Technologies is the world's largest merchant manufacturer and marketer of controlled-release nitrogen products. Environmental responsibility and superior product value go hand-in-hand.

One of our long-term strategic goals has been to consistently strengthen our position as a leading producer and marketer of controlled-release nitrogen and other specialty fertilizers for the turf and specialty agricultural markets. We have been very successful in our pursuit of this goal. The fact that Nu-Gro Technologies has continually increased revenue worldwide, in highly competitive markets that are extremely sensitive to government restrictions and economic trends, bodes well for the future of our division.

Today, Nu-Gro Technologies offers one of the most diversified portfolios of controlled-release nitrogen products in the world. Our core brands – Nitroform®, Nutralene®, Organiform®, IB™ nitrogen and S.C.U.® are some of the strongest, most trusted brands in the industry.

Nu-Gro Technologies is constantly evaluating opportunities and is poised to capitalize on those that are most promising. In 2002, increased market demand prompted us to scale up our Sulphur Coated Urea (S.C.U.®) nitrogen facility in Ontario.

Our division has also experienced impressive growth in the U.S. consumer lawn fertilizer market thanks in large part to an alliance with an existing customer. Although Nu-Gro Technologies is already the world's largest merchant manufacturer and marketer of controlled-release nitrogen products, we are always open to strategic acquisitions and alliances that can mean access to new technology or further increase our share of a market.

Lastly, our commitment to leadership in environmental issues, from plant operations to the design and use of our technologies, remains as strong as ever. We will continue to ensure that all of our products are "Efficiency Designed" to meet or exceed all industry standards.

Nitroform®, Nutralene®, Organiform®, IB™ nitrogen and S.C.U.® are recognized as industry standards in the golf course, sport turf, lawn and landscape, ornamental, nursery, trees/forestry, and land reclamation markets.

Health insurance – environmentally friendly products for ornamental and nursery plants.

Environmentally friendly products for healthy lawns – precise, predictable release of nitrogen.

A few final thoughts...

Our corporate vision. Our industry-leading brands. Our innovative technologies. Our attention-getting packaging. Our value-added customer service. Our commitment to the environment. All are vital contributors to the success of Nu-Gro Corporation. But none could be possible without the skill and dedication of every member of our Nu-Gro family. From management to sales to manufacturing and delivery, there is not a more telling measurement of the probability for our continued growth and success than the quality of our people.

And of course, where would we be without the support of our suppliers, the confidence of our shareholders, and the loyalty of our customers? We value them all. We thank them all.

Consolidated Financial Statements
Year Ending September 30, 2001

INFORMATION ABOUT INDUSTRY SEGMENTS – The Nu-Gro Corporation ("Nu-Gro") divides the business into three operating units:

Consumer Products

Professional Products

Fertilizer Raw Material

Nu-Gro is Canada's leading manufacturer and seller of consumer lawn and garden products. These products include fertilizers, pest control, horticultural, cat litter, ice melt and grass seed product lines, which are sold through national retailers and independent garden centres. The products are marketed under the C-I-L®, Vigoro®, So-Green®, Green Earth®, Plant-Prod®, Pickseed® and Wilson® brands.

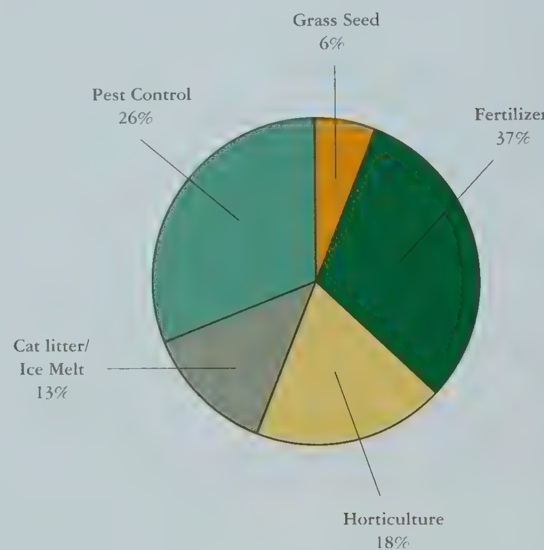
Nu-Gro is Canada's leading manufacturer and seller of professional fertilizer and pest control products. The professional market includes golf courses, lawn care companies and pest control operators. The products are marketed under the ProTurf®, C-I-L®, Par-Ex® and Nu-Gro® brands. Nu-Gro also sells ice melt products in the North American professional market.

Nu-Gro produces and distributes controlled release nitrogen raw material, which is sold to the fertilizer industry worldwide. Controlled release nitrogen is used as a fertilizer or in a fertilizer blend with other ingredients. The fertilizer is used on golf courses, sport turf, home lawns, high yield agricultural crops, nurseries and in greenhouses. Nu-Gro produces four controlled release nitrogen products: Sulphur Coated Urea ("SCU®"), Nutralene®, Nitroform® and Isobutylidenediurea ("IBDU"). As well, Nu-Gro distributes Polymer Sulphur Coated Urea ("PSCU") for the Scotts Company and Urea for Terra Nitrogen.

Financial information for each of these segments is presented in Note 16 of the Audited Consolidated Financial Statements and operating results are discussed below by segment.

CONSUMER PRODUCTS – Retail spending for fertilizer, soil and pest control products is estimated in Statistics Canada's 2000 Survey of Households to be approximately $439 million. Nu-Gro's consumer lawn and garden brands are sold to most independent garden centres and all major national chains including Canadian Tire, Home Depot, Rona, Reno Depot, Costco and Home Hardware among others. Nu-Gro's average market share, which varies over product lines, is approximately 25%. Nu-Gro's competitors in the Canadian lawn and garden market include Scotts, SC Johnson, Premier, Nutrite, Woodstream and United Industries.

A breakdown of Consumer Product sales by product line is summarized in the following pie chart:



Lawn and Garden Fertilizers: Nu-Gro markets four brands to consumers: C-I-L, So-Green, Green Earth and Vigoro. This provides us with the flexibility to channel brands to specific retailers, which allows customers to differentiate products they sell from their competitors. Nu-Gro has two significant competitive advantages over its competitors. The company owns fertilizer blending locations that are strategically located across Canada. This provides us with unsurpassed logistics and distribution advantages. The second advantage is that the company owns manufacturing facilities and the associated technology to produce controlled release nitrogen ("CRN"), the primary ingredient in lawn and garden fertilizer.

Pest Control Products: These products are marketed to the same channels as the consumer and commercial lawn and garden fertilizer product lines. Nu-Gro sells products under the C-I-L, Green Earth and Wilson brand names. This segment includes a full range of indoor, turf and garden pest control and plant protection products registered with Health Canada.

Horticultural Products: These products include a full range of indoor and outdoor soils and horticultural amendments including: topsoil, potting soil, mulches, compost, manure, Triple Mix® and decorative stone. Overall, horticultural products have low sales value per unit of weight making freight costs a significant part of the retail customer's product cost. By offering our retail customers a wide selection of products we are able to combine shipments of horticultural and fertilizer products to reduce freight costs.

Cat Litter and Ice Melt: These product lines complement the seasonal aspects of the lawn and garden business, which allows us to create plant efficiencies and retain a core team of employees year round. Cat litter products are sold under the Kitty Comfort®, Kitty Select® and Natural Select® brands. Ice melt products are sold under the Alaskan® and private label brands.

Grass Seed: Effective July 31, 2001, Nu-Gro acquired a 70% interest in EroGreen Seeds Inc, which was increased to 100% on July 1, 2002, when Nu-Gro entered into a supply agreement with Pickseed Canada Inc. Under the terms of the supply agreement, Pickseed will source the raw materials and package grass seed products at its production facilities and Nu-Gro will sell and market the grass seed under the Pickseed, Oseco®, C-I-L and So-Green brands. Customers will benefit from combining shipments of grass seed with other product lines and one source for in-store merchandising.

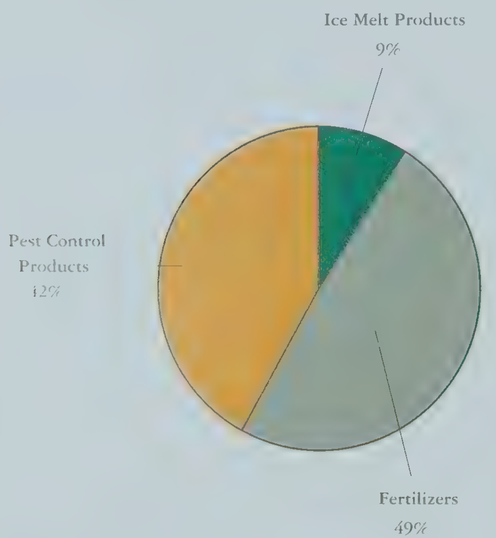
Sales in the consumer product segment increased $1.2 million (2%) in 2002. Sales in the grass seed product line are up $2.7 million, due to the acquisition of a 70% equity interest in EroGreen Seeds on July 31, 2001.

The sales decline on other product lines of $1.5 million (2%) was due to the poor spring weather, which impacted fertilizer sales. Fertilizer sales were also impacted by elimination of low margin SKU's (stock keeping units) as part of our SKU reduction program.

Profit attributable to the consumer product segment increased $1.1 million (11%) over 2001. This change consists of two components. The new grass seed sales generated $0.4 million of profit and $0.7 million was generated from improved profit margins. The improvement in profit margin this year offsets the decline we experienced in fiscal 2001, which was attributed to unrecovered raw material and production cost increases. Profit margins in fiscal 2002 were negatively impacted by production variances, which resulted when production rates were reduced to achieve the targeted inventory reductions.

PROFESSIONAL PRODUCTS – There are 2,000 golf courses in Canada, which spend on average $40,000 per year on fertilizer, seed and pest control products. Nu-Gro's professional product brands are sold to most golf courses in Canada. Nu-Gro's average market share, which varies over product lines, is approximately 25%. Nu-Gro also sells these products to pest control operators and lawn care service providers. Competitors in these markets include Nutrite, Lebanon Seaboard, Fertichem, Guardex, and regional agricultural blenders.

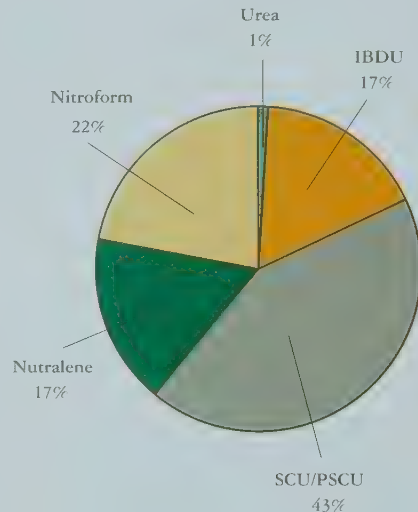
A breakdown of Professional Products sales by product line is summarized in the following pie chart:



The $1.3 million decrease in sales in the professional products segment is due to lower sales of ice melt products due to the mild winter weather. The decrease in segment profit is attributable to the lower sales.

FERTILIZER RAW MATERIAL – The United States controlled release nitrogen market wholesale value in Canadian dollars as estimated from industry sources is $500 million. Nu-Gro's competitors include Agrium, BASF, Lebanon Seaboard, Lesco, Pursell Technologies and Scotts.

Within the fertilizer raw material segment, Nu-Gro manufactures four controlled release nitrogen products and distributes two other products. A breakdown of sales by product line is summarized in the following pie chart:



The company has a production facility in Courtright, Ontario that manufactures SCU. The plant is located within Terra's world class nitrogen facility. Terra supplies high quality urea used for SCU production and urea is also sold and distributed as a separate product line. The urea is supplied under an eight (8) year supply agreement, which was negotiated in July, 2000. PSCU is supplied by The Scotts Company from a production facility located in Marysville, Ohio under a five-year supply agreement, which commenced in June 2000.

Nutralene is manufactured by the company in Gloversville, New York, and also at a new plant in Courtright, Ontario.

Nitroform is manufactured in Louisiana, Missouri under a five-year exclusive supply agreement with Aqualon Company, a division of Hercules, Inc., which commenced in August 2000.

IBDU is manufactured at a company owned facility in Mobile, Alabama. This is one of three facilities in the world and the only plant in North America.

Sales in the fertilizer raw material segment increased $1.5 million (2%). Sales volume is up 6%, which is offset by an average decrease in selling prices. Sales volume increases were particularly evident in the SCU product line, due to the withdrawal of one of our U.S. based competitors. The major raw material ingredient for controlled release nitrogen is urea; and natural gas is a major component in the manufacture of urea. Last year we witnessed unprecedented swings in natural gas costs and selling prices of some of our raw material products were adjusted up and then down to match the swings in raw material cost. This year natural gas costs and selling prices have been more stable.

Profit attributable to the fertilizer raw material segment increased $2.8 million (18%). The increase in the profit is attributable to an insurance recovery related to margin from a business interruption claim in fiscal 2001, higher sales volumes and improved profit margins. Last year profit margins on manufactured product were negatively impacted by unabsorbed raw material cost increases and this year profit margins have returned to more normal levels because of stable raw material costs. This year profit margins also benefited from improved product mix toward higher margin manufactured products. Urea is a product for which we act as a distributor only and urea sales declined because lower market prices limited profitable sales opportunities.

SALES, MARKETING AND ADMINISTRATION – The introduction of new products and the relaunching of existing products have been an important element of Nu-Gro's internal growth in the Consumer segment. Winning the shelf at retail means increased listings, increased product exposure and opportunities for growth. New consumer products and relaunched products in the fiscal 2002 year include:

- Grass seed under the C-I-L and So-Green brands
- Green Earth boxed garden fertilizers
- Green Earth pruning sealer
- C-I-L Golfgreen lawn fertilizer relaunch
- Reformulated pest control products

In fiscal 2003, Nu-Gro plans include the introduction of the following products:

- Green Earth compost
- Wilson TomCat rodenticides
- C-I-L® 77™ lawn fertilizer
- A relaunch of the Vigoro Ultra Turf product line
- So-Green water soluble garden fertilizer
- Mercury ice melt product line

RISKS AND UNCERTAINTIES – The company operates in a seasonal industry with 66% of sales occurring in the second and third quarters of the fiscal year. The company is not able to produce at a level to meet demands in the season and builds inventory to meet anticipated demand. Demand is impacted by weather conditions.

The key ingredients in the company's products are commodities and specialty chemicals, which are generally readily available in the market place. The commodity prices are subject to market fluctuations and changes in the value of the U.S. currency. The company's main raw material ingredient is urea and the company purchases approximately 90,000 tons annually. Sixty-five per cent of this supply is provided by Terra Nitrogen. Natural gas is a feedstock for urea production and each $0.10 increase in natural gas cost equates to a $2.00 per ton increase in urea cost.

The company's top ten consumer product customers represent 79% of consumer products sales. Recent consolidations in the retail market and vendor consolidation programs by retailers are increasing the concentration of sales to large retailers. The company derives 14% of its revenue from one customer and no other customer represents more than 10% of sales. The loss of this or any other significant customer would have a negative impact on earnings.

During fiscal 2002, our industry witnessed an increase in lobbying efforts by activists to regulate and reduce the use of pesticides. Many municipalities are reviewing the cosmetic and essential use of these products as part of their civic agendas. Nu-Gro supports our industry initiative to ensure that pesticide users have the information, education and tools they need to use these beneficial products safely and responsibly. We support Integrated Pest Management practices, a holistic approach to pest management that uses strong prevention practices, a variety of tools and – when required – the judicious application of pest control products to control weeds, insect and other pests.

Nu-Gro holds an exclusive license to use the C-I-L and Vigoro brand names in the Canadian Home and Garden Industry. The C-I-L license agreement was renegotiated in July, 2000 to extend the term to 2040. The Vigoro license commenced November 1, 2000 for a twenty-year term.

LIQUIDITY AND CAPITAL RESOURCES – Cash generated from operating activities was $24.4 million up $22.6 million over last year. The cash generated from operating activities consists of $16.8 million of cash from operations and $7.6 million of cash generated from changes in working capital. The improvement in cash from operations reflects improved profitability. The $7.6 million generated from working capital reverses most of the $10.8 million invested in working capital last year. The following components account for most of the $7.6 million change in working capital:

- Inventory is down $3.2 million. During the year SCU sales exceeded production and we reduced bulk fertilizer inventory. In addition we implemented a SKU reduction program in the consumer and professional products segments to reduce inventory of finished packaged product.
- Accounts payable is up $1.9 million, which is due in part to the timing of the purchase of grass seed inventory from Pickseed as part of the new supply arrangement.
- Income taxes payable is up $2.9 million due to improved profits.

Cash used in investing activities was $4.1 million; $0.4 million was used for acquisitions and $3.7 million was invested in property, plant and equipment; the largest component being $2.0 million invested to complete the plant in Courtright, Ontario. In fiscal 2001, $15.0 million was incurred to build the new plant.

Cash used in financing activities was $6.6 million. During the year the company received $13.0 million of net proceeds on the issuance of 2 million common shares. $15.3 million was used to repay the operating line of credit and $5.0 million was used for scheduled debt repayments.

Total long-term debt and bank indebtedness decreased $20 million and shareholders' equity increased $24.8 million. The increase in equity can be attributed largely to net income of $10.6 million and the $13.7 million issue of common shares pursuant to the private placement and exercise of

warrants and options. Average total capital consisting of shareholders equity plus interest-bearing debt was $97.9 million and EBIT was $18.7 million, which represents a return on capital of 19.1%.

The company has operating lines of credit of $40 million to finance working capital requirements of the business. The cost of the operating line of credit is at bank prime. The term loan's average interest cost is 6.3%

HEALTH, SAFETY AND ENVIRONMENT – Environmental and safety concerns often enter into discussions related to pesticide use. Pesticides play an important role in protecting health and the environment and can be used with assurance when the label instructions are followed. All pesticide products must be registered with Health Canada before they can be sold. Canada's regulatory system is one of the most rigorous in the world. Nu-Gro purchases approved products from international chemical companies including Bayer, Dow Chemical and Syngenta.

Nu-Gro has adopted a continuous improvement philosophy in its environmental and health and safety standards. The internal and regulator investigations into an employee's fatal accident in June 2002 have increased our employees' awareness of health and safety policies and procedures. Nu-Gro facilities are regulated with respect to the handling and storage of chemicals or waste and with respect to air and water discharges. The Company has Corporate Management Programs that ensure policies are integrated, record keeping is standardized and problems are identified and responded to. The programs are audited on a biannual basis by an independent consulting firm. The company is in compliance with existing environmnental and health and safety legislation and includes these matters as a standing agenda item on all meetings of the Board of Directors.

OUTLOOK – Despite the turmoil in the stock market, the Company's share price closed at $7.25 on September 30, 2002, up from $6.00 one year earlier. This improvement in an otherwise weak stock market confirms our view that our industry and business are fundamentally sound and the demographics for our business are positive.

Looking forward to fiscal 2003 the following factors should be considered:

1. We are an active participant in the ongoing discussions related to changes in federal, provincial and municipal pesticide regulations.

2. New and reformulated products will be added under the Green Earth or other brands, which will be marketed as an alternative to more traditional pest control products.

3. We expect fertilizer sales to increase $5 million due to the acquisition of the Plant Products consumer division.

4. We expect sales of grass seed product to increase $4 million due to the new supply agreement with Pickseed Canada.

5. 2002 Fertilizer Raw Material segment sales benefited from two inventory factors that may impact 2003 results. Certain IBDU customers have indicated that their IBDU inventories are high and that they intend to curtail purchases next season and SCU inventories were higher going into last year, which allowed SCU sales volume to exceed production capacity.

6. Included in 2002 fertilizer raw material profit is a one time insurance recovery, related to a business interuption in fiscal 2001.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Company's management is responsible for the preparation and presentation of the consolidated financial statements and all information in this Report to Shareholders. The consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles. Where alternative accounting methods exist, management has selected those it considered to be most appropriate in the circumstances. Financial statements include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis designed to ensure that the consolidated financial statements are presented fairly, in all material respects. Financial information presented elsewhere in this Report to Shareholders has been prepared by management to ensure consistency with that in the consolidated financial statements. The consolidated financial statements have been reviewed by the Audit Committee and approved by the Board of Directors of the Company. Management is responsible for the development and maintenance of systems of internal accounting and administrative cost controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate, relevant and reliable and that Nu-Gro's assets are appropriately accounted for and adequately safeguarded. The Company's Audit Committee is appointed by its Board of Directors annually and is comprised solely of outside directors. The Committee meets periodically with management, as well as with the independent auditors, to satisfy itself that each is properly discharging its responsibilities, to review the consolidated financial statements and the independent auditors' report and to discuss significant financial reporting issues and auditing matters. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders. The consolidated financial statements have been audited by Ernst & Young LLP, the independent auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. The Auditors' Report outlines the nature of their examination and their opinion on the consolidated financial statements of the Company. The independent auditors have full and unrestricted access to the Audit Committee.

John D. Hill, President & C.E.O.

Greg J. Flanagan, C.A.
Chief Financial Officer and Secretary

October 22, 2002

AUDITORS' REPORT

To the Shareholders of The Nu-Gro Corporation,

We have audited the consolidated balance sheets of The Nu-Gro Corporation as at September 30, 2002 and 2001 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Ernst & Young LLP, Chartered Accountants
Kitchener, Canada
October 22, 2002

CONSOLIDATED BALANCE SHEETS

As at September 30 [In Thousands]	2002 $	2001 $
Assets		
Current		
Cash and cash equivalents	15,681	1,957
Accounts receivable [note 2]	21,278	21,019
Income taxes recoverable	–	494
Inventories [note 4]	32,932	36,163
Prepaid and other expenses	1,975	1,837
Total Current Assets	71,866	61,470
Property, plant and equipment [note 5]	40,066	40,652
Trademarks [note 6]	7,123	7,564
Goodwill [note 7]	8,071	7,815
Total Assets	127,126	117,501
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness [note 8]	–	15,264
Accounts payable and accrued liabilities	22,358	20,498
Income taxes payable	2,397	–
Current portion of long-term debt [note 9]	6,655	5,430
Total Current Liabilities	31,410	41,192
Long-term debt [note 9]	12,970	18,740
Future income taxes [note 12]	1,981	1,554
	46,361	61,486
Commitments [notes 13 & 14]		
Shareholders' Equity		
Share capital [note 10]	29,924	15,944
Retained earnings	49,311	38,701
Cumulative translation adjustment	1,530	1,370
Total Shareholders' Equity	80,765	56,015
Total Liabilities And Shareholders' Equity	127,126	117,501

See accompanying notes

On behalf of the Board:

John D. Hill, President & C.E.O.

Austin C. Beutel, Chairman

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Years ended September 30 [In Thousands, except for earnings per share]	2002 $	2001 $
Sales	167,975	166,549
Cost of sales	123,429	126,564
Gross Margin	44,546	39,985
Expenses		
Sales, administration and marketing	20,380	20,770
Amortization [notes 5, 6 & 7]	5,498	4,361
Interest on long-term debt	1,394	1,169
Interest – other	624	949
	27,896	27,249
Income before income taxes	16,650	12,736
Income taxes [note 12]	6,040	4,909
Net Income	10,610	7,827
Retained Earnings, Beginning Of Year	38,701	30,874
Retained Earnings, End Of Year	49,311	38,701
Earnings Per Common Share [notes 7 & 11]		
Basic	0.71	0.58
Diluted	0.69	0.57

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended September 30 [In Thousands]	2002 $	2001 $
Operating Activities		
Net income	10,610	7,827
Add non-cash items:		
Amortization	5,498	4,361
Future income taxes	667	438
	16,775	12,626
Changes in non-cash working capital items	7,653	(10,756)
Cash provided by operating activities	24,428	1,870
Investing Activities		
Purchase of property, plant and equipment	(3,725)	(17,679)
Proceeds on disposal of property, plant and equipment	–	398
Acquisitions [note 3[d]]	(361)	(10,781)
Cash used in investing activities	(4,086)	(28,062)
Financing Activities		
Bank indebtedness	(15,264)	15,264
Issuance of common shares for cash [note 10]	13,680	1,017
Proceeds on long-term debt	–	14,500
Repayment of long-term debt	(5,034)	(5,039)
Cash (used in) provided by financing activities	(6,618)	25,742
Net increase [decrease] in cash and cash equivalents during year	13,724	(450)
Cash and cash equivalents, beginning of year	1,957	2,407
Cash and cash equivalents, end of year	15,681	1,957
Supplementary Information		
Interest paid	(2,018)	(2,118)
Income taxes paid	(3,149)	(4,471)

See accompanying notes

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of the consolidated financial statements necessarily involves the use of estimates and approximations. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

PRINCIPLES OF CONSOLIDATION – The consolidated financial statements include the accounts of the Company, its wholly-owned Canadian subsidiaries SCU Nitrogen Inc., Wilson Laboratories Inc., Nu-Gro IP Inc., EroGreen Seeds Inc., Mor-Pac Limited, and its wholly-owned American subsidiaries, Nu-Gro America Corp., Nu-Gro Technologies Inc., and IB Nitrogen Inc.

Prior to acquiring the remaining 50% interest in Mor-Pac Limited on June 30, 2002, the Company accounted for this investment using the proportionate consolidation method. As the Company's share in the assets, liabilities, operating results and cash flows of the joint venture prior to June 30, 2002 were not material, separate financial information related to the joint venture is not provided in these consolidated financial statements.

The purchase method has been used to account for all acquisitions and the results of operations of businesses acquired are included only from the effective date of their respective acquisitions. Intercompany balances and transactions, including profits in inventories, are eliminated. The transitional provisions of the new recommendations of The Canadian Institute of Chartered Accountants with respect to business combinations have been adopted for acquisitions effective after July 1, 2001.

REVENUE RECOGNITION – Revenue is recognized when products are shipped and when title and risk of loss transfers to the customer.

INVENTORIES – Inventories are valued at the lower of cost and market value with cost being determined on the first-in, first-out basis. Finished goods cost includes an applicable share of direct labour and manufacturing expenses. Market value is net realizable value for packaged goods and is replacement cost for raw materials, packaging and bulk fertilizer.

PROPERTY, PLANT AND EQUIPMENT – Property, plant and equipment are carried at cost, which includes interest incurred during the construction period. Amortization is provided on the straight-line basis over the expected lives of the assets commencing when the asset is available for use, using the following useful lives:

Buildings and leasehold improvements	10 - 20 years
Machinery and equipment	5 - 10 years
Print plates	3 years
Computer software/hardware	3 years

TRADEMARKS – Trademarks are carried at cost. Amortization is provided on a straight-line basis over 20 years, which is the expected asset life.

GOODWILL – Goodwill represents the excess of purchase price consideration over the fair value of the net assets acquired. During 2001, the Company adopted the transitional provisions of the new recommendations of the Canadian Institute of Chartered Accountants with respect to goodwill. These new provisions resulted in amortization during fiscal 2001 (on a straight-line basis over a period of 20 years) on goodwill relating to acquisitions of businesses made prior to July 1, 2001. Amortization was not recorded on goodwill related to acquisitions subsequent to July 1, 2001.

Commencing October 1, 2001, the Company adopted the remaining provisions of these new recommendations which requires that no amortization be recorded on the carrying value of goodwill and intangible assets with an indefinite life and that goodwill and intangible assets with an indefinite life be assessed for impairment on an annual basis. The assessment of impairment, which was made during the first quarter of the fiscal year, involves a two-step test. The first step involves the identification and assignment of assets (including goodwill) and liabilities to

reporting units and then to calculate and compare the reporting unit's fair value to its carrying amount. A reporting unit is defined as an operating segment consistent with the CICA Handbook Section 1701 "Segment Disclosures", or one level below the operating segment. The Company is organized and managed as three separate reporting units. Upon application of step one of the impairment test, the fair value of each of the three reporting units was found to exceed its carrying value, thereby rendering the second step of the impairment test unnecessary. If the carrying value of a reporting unit's goodwill had exceeded its implied fair value, the Company would have recognized an impairment loss and recorded an adjustment to retained earnings as at October 1, 2001.

INCOME TAXES – The Company follows the liability method of tax allocation in accounting for income taxes. Future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

FOREIGN CURRENCY TRANSLATION – The financial statements of the Company's foreign operations, which are considered self-sustaining, are translated into Canadian dollars as follows:

Assets and liabilities - at the rates of exchange in effect at the balance sheet date.

Revenue and expense items - at rates of exchange approximating the average rates of exchange for the year.

Exchange gains and losses arising on translation of the accounts of the foreign operations are deferred and taken to the currency translation account as part of shareholders' equity.

Transactions of the Company denominated in foreign currencies are recorded in Canadian dollars at exchange rates in effect at the related transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Resulting exchange gains or losses are included in income.

CASH AND CASH EQUIVALENTS – The Company considers all highly liquid temporary cash investments, with an original maturity of three months or less when purchased, to be cash equivalents. Cash equivalents are carried at cost, which approximates market value.

EARNINGS PER SHARE – Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution of securities by adding other common stock equivalents in the weighted average number of common shares outstanding during the period, if dilutive, and is calculated using the treasury stock method.

STOCK-BASED COMPENSATION PLAN – The Company has a stock-based compensation plan, which is described in note 10 (d). The options are granted at the fair market value of the shares on the day of grant of the options. No compensation expense is recognized at the time stock options are issued. Consideration received by the Company on the exercise of stock options is credited to share capital.

2. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

CONCENTRATION OF CREDIT RISK – The Company's accounts receivable relate primarily to product sales to a range of customers in Canada and United States. Credit limits, credit evaluation and account monitoring procedures are utilized to minimize the risk of loss.

FAIR VALUE OF FINANCIAL INSTRUMENTS – The carrying values of accounts receivable, bank indebtedness, accounts payable and accrued liabilities and income taxes recoverable/payable approximate fair values due to the immediate or short-term maturities of these financial instruments. The fair value of obligations under long-term debt, calculated at the present value of future contractual payments of principal and interest, discounted at the current market rates of interest available to the Company for debt instruments with similar terms and maturity, is disclosed in note 9.

3. ACQUISITIONS

a) In June 2002, the Company acquired the remaining 50% interest in Mor-Pac Limited and the remaining 30% interest in EroGreen Seeds Inc. Both companies are now wholly owned subsidiaries and are fully consolidated as at September 30, 2002. Previously, Mor-Pac was accounted for using the proportionate consolidation method. The acquisition cost for these two transactions amounts to $250,000 and has been allocated as follows:

[InThousands]	$
Property, plant and equipment	720
Goodwill	250
Net working capital	(231)
Assumption of debt	(489)
	250

The purchase price was financed by the issuance of a promissory note payable in the amount of $180,000 and cash consideration of $70,000.

b) During the 2001 fiscal year, the Company's consumer packaging segment acquired two businesses. On July 31, 2001, the Company acquired 70% of the outstanding shares of EroGreen Seeds Inc. for cash consideration of $145,000. On November 1, 2000, the Company acquired certain assets of Pursell Vigoro Canada Inc. for consideration amounting to $10,343,000. The purchase price for these businesses is allocated as follows:

[InThousands]	$
Working capital	3,531
Property, plant and equipment	2,472
Trademarks	2,441
Goodwill	2,044
	10,488

Funded By:

[In Thousands]	$
Cash	488
Long-term debt	10,000
	10,488

c) The terms of the 1996 acquisition of the Nutralene and Nitroform trademarks and related business provided for additional consideration [based on the net sales amount] should the acquired business exceed certain cumulative net sales amounts during the first five years of ownership (fiscal 2001 being the final year). Since the net sales threshold was exceeded, additional consideration of $291,000 [$184,000 U.S.] was recorded in the 2001 fiscal year to the carrying value for trademarks ($293,000 in 2000 [$194,000 U.S.]).

d) Cash used in acquisition activities is comprised of the following:

[In Thousands]	2002 $	2001 $
Purchase of equity interest in EroGreen Seeds Inc.	70	145
Payment of Nutralene & Nitroform additional consideration	291	293
Purchase of certain assets of Pursell Vigoro Canada Inc.	–	10,343
	361	10,781

4. INVENTORIES

[In Thousands]	2002 $	2001 $
Raw materials and packaging	12,486	13,106
Bulk fertilizer	7,645	8,936
Packaged goods	12,801	14,121
	32,932	36,163

5. PROPERTY, PLANT AND EQUIPMENT

2002 [In Thousands]	Cost $	Accumulated Amortization $	Net Book Value $
Land	1,353	–	1,353
Buildings and leasehold improvements	22,068	5,096	16,972
Machinery and equipment	34,737	13,810	20,927
Print plates	1,489	1,005	484
Computer software/hardware	2,014	1,684	330
	61,661	21,595	40,066

2001 [In Thousands]	Cost	Accumulated Amortization	Net Book Value
Land	1,335	–	1,335
Buildings and leasehold improvements	20,940	3,874	17,066
Machinery and equipment	31,863	10,691	21,172
Print plates	1,624	1,163	461
Computer software/hardware	1,682	1,064	618
	57,444	16,792	40,652

Amortization on property, plant and equipment is $5,041,000 [$3,497,000 in 2001]. Interest capitalized during the 2001 fiscal year to property, plant and equipment amounted to $528,000.

6. TRADEMARKS

[In Thousands]	2002 $	2001 $
Trademarks	9,078	9,062
Less accumulated amortization	1,955	1,498
Net book value	7,123	7,564

Amortization on trademarks is $457,000 [$458,000 in 2001].

7. GOODWILL

[In Thousands]	2002 $	2001 $
Net book value	8,071	7,815

During the year, goodwill additions amounted to $250,000 [$2,044,000 in 2001]. Amortization recorded in 2001 amounted to $406,000.

In accordance with the new recommendations of the Canadian Institute of Chartered Accountants, the Company no longer records amortization expense for goodwill. On an adjusted basis, the Company's net income and basic and diluted earnings per share for the fiscal year ended September 30, 2001 would have been as follows:

[In Thousands]	2001 $
Net income as reported	7,827
Restatement to eliminate amortization of goodwill	406
Adjusted net income	8,233
Basic earnings per share as reported	0.58
Restatement to eliminate amortization of goodwill	0.03
Adjusted basic earnings per share	0.61
Diluted earnings per share as reported	0.57
Restatement to eliminate amortization of goodwill	0.02
Adjusted diluted earnings per share	0.59

8. BANK INDEBTEDNESS

The Company has available to it an operating line of $35,000,000 Canadian [or U.S. equivalent] at an interest rate of bank prime [4.50% at September 30, 2002 (5.25% at September 30, 2001)] for Canadian dollar borrowings and U.S. base rate [4.75% at September 30, 2002 (6.0% at September 30, 2001)] for U.S. dollar borrowings. There was no balance outstanding on the operating line of credit as at September 30, 2002 [as at September 30, 2001, there was $12,560,000 outstanding on the operating line of credit and the balance of bank indebtedness included outstanding cheques of $2,704,000]. An additional operating line of $4,757,000 [$3,000,000 U.S.] at an interest rate equivalent to the U.S. base rate is available to support the U.S. operations. There is no balance outstanding on this facility at year-end. Collateral for the bank revolving operating lines of credit includes a general assignment of inventories and accounts receivable.

9. LONG-TERM DEBT

[In Thousands]	2002 $	2001 $
Term bank loans payable in monthly principal installments of $333 [$376 in 2001], plus interest at 5.84% to 6.81%. The loans mature at dates ranging from March 2003 to November 2005. A $7.0 million first mortgage of lease and a general security agreement has been provided as collateral.	18,101	22,289
Term bank loans payable in monthly principal installments of $39 plus interest at bank prime rate plus 0.25% to 0.75% [4.75% to 5.25%; 5.50% to 6.00% in 2001]. The term loans mature at dates ranging from October 2002 to June 2004. A general security agreement has been provided as collateral.	1,524	1,881
	19,625	24,170
Current portion	6,655	5,430
	12,970	18,740

The aggregate fair value of the long-term debt is estimated at $20,000,000 at September 30, 2002 ($24,894,000 at September 30, 2001) based on the discounted future cash flows using current market rates of interest available for debt instruments with similar terms.

The principal repayments on long-term debt are as follows:

Fiscal year	$ [In Thousands]
2003	6,655
2004	3,286
2005	5,309
2006	4,375

10. SHARE CAPITAL

A) AUTHORIZED

The authorized capital of the Company consists of an unlimited number of non-voting preferred shares issuable in series and an unlimited number of common shares.

B) CHANGES IN STATED CAPITAL

	2002		2001	
	Number of Shares/Warrants	$ [In Thousands]	Number of Shares/Warrants	$ [In Thousands]
Common Shares				
Balance, beginning of year	13,706,292	15,934	13,400,142	14,907
Equity issue	2,000,000	13,325	–	–
Issued pursuant to existing stock options and warrants	187,000	660	306,150	1,027
Balance, end of year	15,893,292	29,919	13,706,292	15,934
Warrants				
Balance, beginning of year	200,000	10	409,750	20
Warrants issued on equity issue	1,180,000	–	–	–
Warrants exercised	(100,000)	(5)	(209,750)	(10)
Balance, end of year	1,280,000	5	200,000	10
Total balance, end of year		29,924		15,944

The following table presents the maximum number of common shares that would be outstanding if all instruments outstanding at September 30, 2002 were exercised:

Common shares	15,893,292
Warrants	1,280,000
Stock options	432,000
	17,605,292

As at October 22, 2002, 15,893,292 common shares were issued and outstanding.

C) EQUITY ISSUE

On February 21, 2002, the Company issued 2,000,000 units at $7.00/unit for gross proceeds of $14.0 million ($13,325,000 net of after tax issuance costs). Each unit consisted of one (1) common share and one-half (1/2) warrant. Each full warrant entitles the holder to purchase an additional common share at $8.00 during the twenty-four (24) month period subsequent to purchase of the units. Net cash proceeds on the equity issue amounted to $13,025,000 after all agent fees (which included the granting of 180,000 additional warrants on similar terms except that 120,000 warrants can be exercised at $7.00 per share).

D) STOCK OPTIONS

Stock options have been granted to certain senior employees and directors of the Company for the purchase of common shares with vesting occurring on a graduated basis up to a seven year period. Stock options outstanding expire at various dates up to 2007. As at September 30, 2002 there are 432,000 options outstanding; 333,334 of which are vested. There are 141,250 shares available for future grants under the plan. A summary of option activity is shown below:

Options Outstanding	Number	Exercise Price $ Range	Weighted Average Exercise Price
Balance, September 30, 2000	599,400	1.60 - 6.40	3.92
Granted during year	50,000	5.50 - 6.45	5.98
Exercised during year	(96,400)	1.60 - 3.55	2.67
Forfeited during year	(43,000)	3.55 - 5.50	4.68
Balance, September 30, 2001	510,000	2.90 - 6.45	4.29
Granted during year	25,000	6.00	6.00
Exercised during year	(87,000)	2.90 - 3.55	3.21
Forfeited during year	(16,000)	3.55	3.55
Balance, September 30, 2002	432,000	2.90 - 6.45	4.63

The weighted average characteristics of options outstanding as at September 30, 2002 are as follows:

Options Outstanding				Options Exercisable	
Range of Exercise Price	Number of Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
2.90 - 3.55	207,000	3.6	3.08	175,000	3.01
5.50 - 6.45	225,000	2.8	6.06	158,334	6.12
Total	432,000	3.2	4.63	333,334	4.49

E) WARRANTS

There are 1,280,000 warrants outstanding; 100,000 are exercisable until March 31, 2003 at $3.75 per share, 120,000 are exercisable at $7.00 until February 21, 2004 and 1,060,000 are exercisable at $8.00 until February 21, 2004. During the year, 100,000 warrants were exercised at $3.75 per share.

11. EARNINGS PER COMMON SHARE

The following table sets forth the computation of basic and diluted earnings per share.

[In Thousands, except for earnings per share]	2002 $	2001 $
Numerator for basic and diluted earnings per share available to common stockholders	10,610	7,827
Denominator for basic earnings per share – weighted average shares outstanding	15,023	13,483
Effect of dilutive securities:		
Warrants	46	79
Employee stock options	213	161
Dilutive potential common shares	259	240
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions	15,282	13,723
Earnings per share		
Basic	0.71	0.58
Diluted	0.69	0.57

Excluded from the calculations above are anti-dilutive warrants and options. In total 1,060,000 warrants [125,000 options in 2001] were excluded from the diluted earnings per share calculation.

12. INCOME TAXES

The Company's provision for income taxes is comprised of:

[In Thousands]	2002 $	2001 $
Income taxes at combined Canadian federal and provincial rates of 39% in 2002 [42% in 2001]	6,494	5,349
Increase (decrease) in income taxes applicable to:		
Foreign tax rate differential	(140)	(288)
Manufacturing and processing deduction	(410)	(403)
Amortization of goodwill	–	130
Large corporations tax	50	80
Other items	46	41
	6,040	4,909
Represented by:		
Current income taxes	5,373	4,471
Future income taxes	667	438
	6,040	4,909

The tax effect of the temporary differences that give rise to the liability for future income taxes are as follows:

[In Thousands]	2002 $	2001 $
Property, plant and equipment	1,702	1,194
Trademarks	454	430
Financing costs	(240)	–
Other	65	(70)
Total	1,981	1,554

13. OPERATING LEASES

The minimum annual lease payments under operating leases for rental of buildings, machinery and equipment over the next five years in aggregate are as follows:

Fiscal year	$ [In Thousands]
2003	850
2004	675
2005	437
2006	406
2007	390
Future minimum lease payments	**2,758**

14. COMMITMENTS

The Company has entered into several supply agreements, some of which require the purchase of a specified minimum amount of raw materials. The agreements have varying terms extending to 2009. The current minimum annual amount of purchases is approximately $7,500,000.

15. RELATED PARTY TRANSACTIONS

Transactions with related parties are measured at the exchange amount, and are presented below:

[In Thousands]	2002 $	2001 $
Transactions with Oakwest Corporation Limited, a shareholder of the Company:		
Consulting fees paid during the year	72	72
Proportionate share of transactions with Mor-Pac Limited, to date control acquired:		
Purchases of packaged products during the period	588	545
Accounts payable, end of year	–	20

16. SEGMENTED INFORMATION

A) OPERATING SEGMENTS

The Company has three reportable segments: consumer products, professional products and fertilizer raw material. As a result of recent acquisitions in the professional products business, the Company started to separately measure the financial performance of this segment in fiscal 2002. Accordingly, the professional business has been identified as a separate segment and prior period segmented results have been restated to conform to this new presentation.

The consumer products segment comprises a variety of fertilizer, soil and pesticide products primarily for the retail lawn and garden industry in Canada. The professional products segment comprises a variety of fertilizer and pesticide products primarily for the golf and professional industry in Canada. The fertilizer raw material segment represents the manufacture and distribution of controlled release nitrogen raw material to the fertilizer industry worldwide.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company accounts for intersegment sales as if the sales were to third parties, that is, at current market prices.

[In Thousands]	CONSUMER PRODUCTS 2002 $	CONSUMER PRODUCTS 2001 $	PROFESSIONAL PRODUCTS 2002 $	PROFESSIONAL PRODUCTS 2001 $	FERTILIZER RAW MATERIAL 2002 $	FERTILIZER RAW MATERIAL 2001 $	TOTAL 2002 $	TOTAL 2001 $
Sales to external customers	62,356	61,155	33,937	35,203	71,682	70,191	167,975	166,549
Inter-segment sales	–	–	–	–	7,284	8,500	7,284	8,500
Segment profit	11,470	10,352	7,552	7,914	18,008	15,240	37,030	33,506
Sales, administration and marketing							20,380	20,770
Income before income taxes							16,650	12,736
Components comprising segment profit:								
Amortization	1,735	1,681	908	1,069	2,855	1,611	5,498	4,361
Interest expense (income)	832	1,397	450	783	736	(62)	2,018	2,118
Total assets	45,401	45,235	24,571	24,445	57,154	47,821	127,126	117,501
Capital expenditures	1,266	1,739	547	937	1,912	15,003	3,725	17,679
Additions to trademarks	–	1,528	–	913	–	291	–	2,732
Additions to goodwill	250	1,387	–	657	–	–	250	2,044

B) GEOGRAPHIC

The following geographic information is presented based on location for property, plant and equipment, corporate jurisdiction for trademarks and goodwill, and in the case of sales, the location of the customer.

[In Thousands]	CANADA 2002 $	CANADA 2001 $	U.S. 2002 $	U.S. 2001 $	OTHER 2002 $	OTHER 2001 $	TOTAL 2002 $	TOTAL 2001 $
Sales to external customers	95,340	96,965	65,459	63,506	7,176	6,078	167,975	166,549
Property, plant and equipment	36,121	36,021	3,945	4,631	–	–	40,066	40,652
Trademarks	4,233	4,490	2,890	3,074	–	–	7,123	7,564
Goodwill	6,105	5,854	1,966	1,961	–	–	8,071	7,815

Sales to one customer of the consumer products segment represents 14% of the Company's sales [12% in 2001].

17. SUBSEQUENT EVENT

On October 10, 2002, the Company acquired the Canadian consumer water soluble fertilizer business of Plant Products Co. Ltd. The purchase price of $1,719,000 is allocated as follows:

[In Thousands]	$
Inventory	969
Property, plant and equipment	200
Trademarks	50
Goodwill	500
	1,719

Funded By:

[In Thousands]	$
Cash	1,419
Promissory note payable	300
	1,719

18. COMPARATIVE AMOUNTS

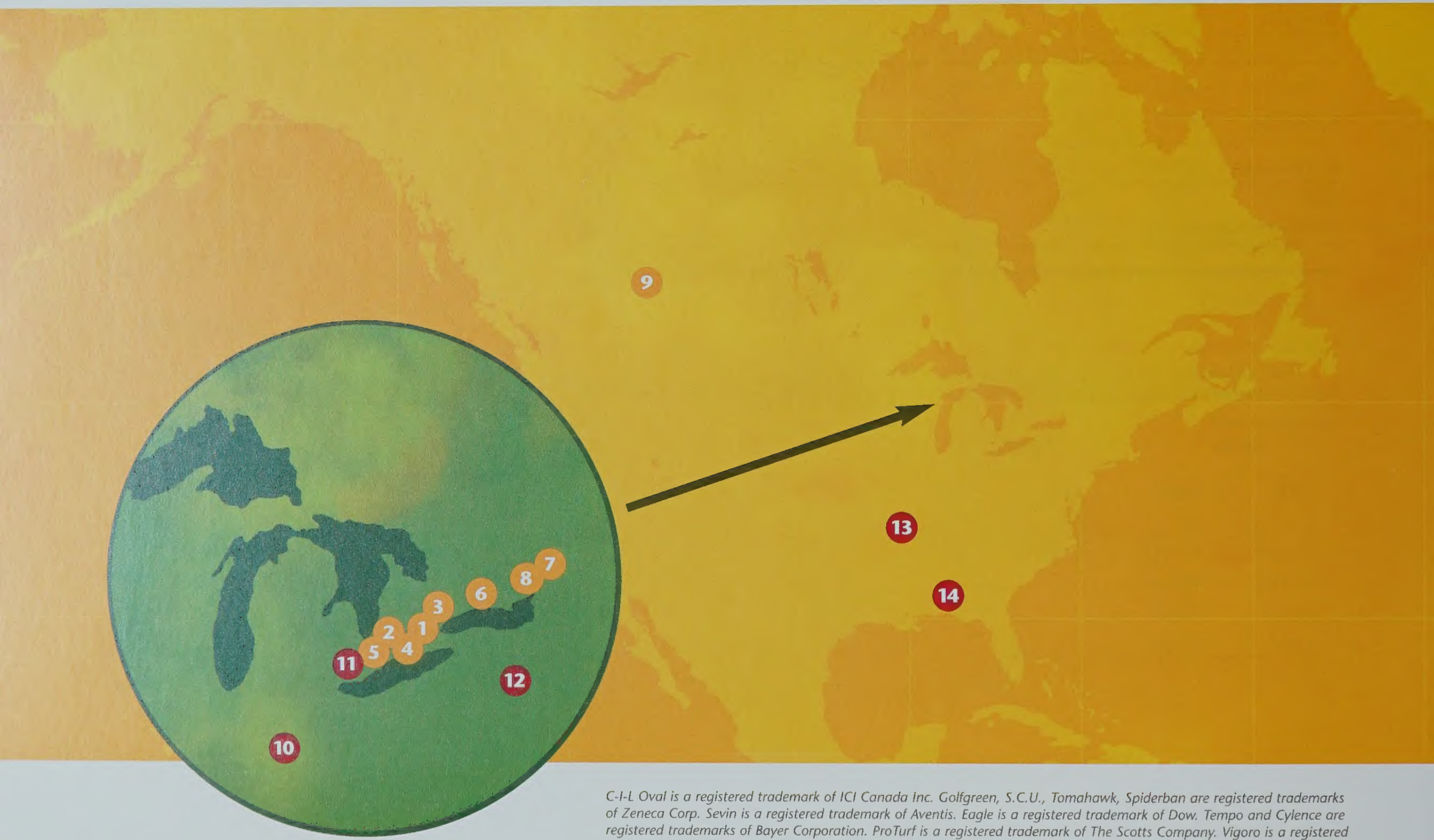
Certain comparative amounts have been reclassified to conform to the presentation adopted in the current year.

CONSUMER/PROFESSIONAL PRODUCTS

1. **Brantford ON** Head Office and Warehouse
2. **Woodstock ON** Horticultural centre for soils, manures, decorative stone and distribution for Ontario
3. **Brampton ON** 100% owned, EroGreen grass seed
4. **Tillsonburg ON** Fertilizer and ice melt products
5. **Putnam ON** Fertilizer, cat litter and specialized professional turf products
6. **Brighton ON** Pesticide formulation and filling
7. **Montreal PQ** Fertilizer and distribution centre for Quebec and Maritimes
8. **Moosecreek ON** Soil products
9. **Calgary AB** Fertilizer, soil, cat litter and ice melt for Western Canada

RAW MATERIALS - CONTROLLED RELEASED NITROGENS

10. **Delphos OH** (PSCU Distribution Centre)
11. **Courtright ON** (S.C.U.® and Methylene Urea)
12. **Gloversville NY** (Nutralene® and Organiform®)
13. **Louisiana MI** (Nitroform®)
14. **Mobile AL** (IBDU®)



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TRANSFER AGENCY

Computershare Trust Company (Toronto, ON)

SHARES LISTED AND TRADED

Toronto Stock Exchange – NU

AUDITOR

Ernst & Young LLP
(Kitchener, ON)

ANNUAL GENERAL MEETING

February 5, 2003 at 4:15 p.m. (Toronto Time)
Toronto Stock Exchange Auditorium
130 King St. W., Toronto, ON

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